

August 17, 2006

MEMORANDUM TO: The Board of Directors

FROM: Sandra L. Thompson  
Acting Director  
Division of Supervision and Consumer Protection

Arthur J. Murton  
Director  
Division of Insurance and Research

SUBJECT: Basel II and Market Risk Data Collection Proposals

## INTRODUCTION

The purpose of this memorandum is to inform the FDIC Board of proposed data reporting requirements in conjunction with its consideration of the joint notice of proposed rulemaking entitled Risk-Based Capital Standards: Advanced Capital Adequacy Framework (the NPR) (also referred to as Basel II) as well as the joint notice of proposed rulemaking entitled Risk-Based Capital Standards: Market Risk (the MRNPR). No action on the reporting proposals is required by the FDIC Board. The FFIEC Reports Task Force (RTF) has delegated authority to approve interagency data reporting requirements for regulated financial institutions provided there is unanimous agreement among the agencies.

The NPR and MRNPR describe new risk-based capital adequacy rules for U.S. institutions that qualify for and adopt either the advanced approaches<sup>1</sup> described within the Basel II framework or the agencies' market risk requirements. Both the NPR and MRNPR reference regulatory reporting proposals to collect certain data elements from institutions that adopt these approaches. These reporting proposals are detailed in the attached joint initial Paperwork Reduction Act Federal Register notices and requests for comment (referred to hereafter as the reporting notices). The agencies intend to publish these reporting notices concurrently with the NPR and MRNPR, subject to the required approvals. Although the reporting proposals have been finalized and agreed on by the staffs of all four agencies, the agencies may agree to make technical and non-substantive changes to the proposals prior to publishing the notices. Both data collection proposals will be reviewed and voted on by the RTF prior to the FDIC Board meeting on September 5, 2006.

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<sup>1</sup> That is, the internal ratings-based (IRB) approach for calculating regulatory credit risk capital requirements and the advanced measurement approaches (AMA) for calculating regulatory operational risk capital requirements.

## BACKGROUND

The data collection proposals outlined in the reporting notices were developed by an interagency Data Collection Group (the DCG). The purpose of these proposals is to provide supervisors with sufficient details to: (1) monitor capital compliance; (2) assess the reasonableness of institutions' risk-based capital levels relative to inherent risks and the agencies' minimum capital requirements; (3) evaluate the quantitative impact and competitive implications of implementing the proposed capital requirements contained in the NPR and the MRNPR on an industry-wide and institution-specific basis; and (4) supplement on-site examination processes and decisions pertaining to the allocation of supervisory resources. The Basel II data collection proposal will also provide market participants, depositors, and the public with certain information about institutions' risk-based capital.

## MAIN ELEMENTS OF THE AGENCIES' DATA COLLECTION PROPOSALS

Scope: In general, the data collection requirements relating to the adoption of the advanced approaches contained within the Basel II framework (Basel II data elements) would apply to each consolidated bank holding company (BHC) and each insured depository institution that qualifies for and implements the IRB and AMA approaches to determine risk-based capital requirements as prescribed within the NPR. Data collection requirements relating to the agencies' market risk rules (market risk data elements) generally would apply to each consolidated BHC and each insured depository institution that qualifies for and implements the agencies' market risk rules as prescribed in the MRNPR.<sup>2</sup> Following review of comments on the NPR, the MRNPR, and the data collection proposals, the agencies intend to work with the FFIEC's RTF to finalize reporting requirements to include reporting formats, data definitions, and report submission processes.

Frequency and Timing: Data would be submitted under these proposals on a quarterly basis. Reporting filing dates and processes would be the same as existing requirements for Call Reports, Thrift Financial Reports, and bank holding company FR Y-9C reports. The first reporting period for Basel II data elements would correspond to the first parallel run period as defined in the NPR. The first reporting period for market risk elements would be the end of the first calendar quarter in which the market risk rules described in the MRNPR become effective.

Transitional Reporting for Basel II Elements: During the parallel run period and the subsequent transitional floor periods (as defined in the NPR), reporting institutions will be required to report capital information under both the reporting proposal relating to Basel II data elements and existing risk-based capital rules. The purpose of this dual reporting requirement is to allow the agencies to monitor compliance with existing risk-based capital rules during the parallel run and transitional risk-based capital floor periods, and to facilitate comparisons of risk-based capital results between the new and existing risk-based capital frameworks.

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<sup>2</sup> There may be some non-Basel II institutions that are subject to the market risk rules. In these cases, institutions would only be required to submit the data elements shown in the market risk schedule. There may also be some Basel II institutions that are not subject to the market risk rules. In these cases, institutions would only be required to submit data elements contained in the Basel II data element schedules.

Data Content: The proposal for collecting Basel II data elements covers only data relating to Pillar 1 (quantitative capital elements) of the Basel II framework. The proposal does not require submission of information relating to Pillar 2 (supervisory considerations) or Pillar 3 (mandatory public disclosure items). The proposed data submissions would be separated into publicly available and confidential data elements. Publicly available data elements (schedules A and B and data items 1-7 of schedule V of the attached reporting schedules) provide summary information about institutions' capital elements (numerator) and risk-weighted asset calculations (denominator).<sup>3</sup> The publicly available information schedules are intended to contain a level of detail comparable to what is currently reported and publicly available for Basel I risk-based capital. The remaining data elements (schedules C through V, except data items 1-7 of schedule V) will not be publicly disclosed, and contain more detailed, but still aggregated, information about the key drivers of institutions' capital calculations.

The proposal for collecting market risk data elements requires submission of information pertaining to institutions' value-at-risk measures, specific risk charges, and other information pertaining to the drivers of institutions' regulatory capital requirements for market risk (schedule 1 of the attached reporting schedules). The market risk information collected through this proposal will not be publicly disclosed.

Information Sharing: Data submitted through these data collection proposals would be shared among the four agencies. The intent of this sharing of information would be to facilitate comparisons of regulatory capital, as determined by rules contained in the NPR and MRNPR, among institutions.

Reporting Burden Considerations: The reporting proposal pertaining to Basel II data elements would require institutions to submit up to 3,100 data elements delineated within 22 reporting schedules. The bulk of these data elements would be derived from information that must be maintained by reporting institutions in order to comply with rules contained in the NPR. Staff estimates that these reporting requirements will affect 19 state nonmember banks. Staff estimates each quarterly submission would require 280 hours for a total annual estimated reporting burden of 21,280 hours (280 hours multiplied by 19 reporting institutions multiplied by four quarters).<sup>4</sup>

The reporting proposal pertaining to market risk data elements would require institutions to submit up to 42 data elements within one reporting template. Most of these data elements are derived from information that must be maintained by reporting institutions in order to comply with rules contained in the MRNPR. Many of these elements are also commonly disclosed to the public on a consolidated company basis in SEC filings. Staff estimates that these reporting requirements will affect three state nonmember banks. Staff estimates each quarterly submission

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<sup>3</sup> No reported information will be available to the public during the parallel run period when Basel I risk-based requirements will continue to apply.

<sup>4</sup> The burden estimates for the other agencies appear on pages 6-7 of the attached Basel II Reporting Federal Register Notice.

would require 11.75 hours for a total annual estimated reporting burden of 141 hours (11.75 hours multiplied by three reporting institutions multiplied by four quarters).<sup>5</sup>

Staff recognizes that the reporting requirements will create additional reporting burden, particularly for institutions that are either required to adopt, or chose to opt into, the Basel II framework. Staff believes that the added burden is justified by the need for information to achieve the objectives outlined above (e.g., monitor capital compliance, assess the reasonableness of internal risk estimates, and assess the competitive implications of implementing the proposed capital requirements). The agencies' reporting notices explicitly seek comment from the industry on the estimated burden of reporting this information.

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#### Attachments

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<sup>5</sup> The burden estimates for the other agencies appear on pages 6-7 of the attached Market Risk Reporting Federal Register Notice.